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RUMIAAA/USCINCSO MIAMI FL PRIORITY

C O N F I D E N T I A L LIMA 001507

SIPDIS

E.O. 12958: DECL: 09/13/2018
TAGS: [PGOV](#) [PREL](#) [PINR](#) [PE](#)
SUBJECT: CUSCO REGON: POVERTY GROWING AMIDST PLENTY

REF: A. LIMA 1453
[1B](#). LIMA 389

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[11](#). (C) Summary: Recently released poverty statistics from the Cusco region help put Peru's positive national-level macro-economic news into political perspective. According to the National Statistics and Information Institute (INEI), poverty in Cusco actually increased by 4% from 2004-2007 at the same time as nationwide poverty dropped by nine percent. That Cusco is the heart of Peru's tourism industry and home to significant natural resource wealth only underscores the region's -- and Peru's -- broader challenge: how to distribute resources from a relatively prosperous urban core to impoverished rural areas. Cusquenos blame the increase in poverty primarily on mismanagement and abdication of responsibility by local government. Local observers also blame national laws restricting the use of mining and gas royalties received by the regional and local governments. Others argue that radical political agitators and individuals with a political or economic stake in Cusco's continued poverty have actively sought to undermine development efforts. End Summary.

Growing Poverty in a Wealthy Region

[12](#). (C) A central question surrounding Peru today is how an economic boom, with growth high and macro-level poverty beginning to drop (ref A), can be accompanied by plummeting popular support for the country's political leadership, including President Garcia. One answer is that the "big-picture" view conceals as much as it reveals. Zoom in toward the regional, sub-regional and local levels and the picture gets more varied and fuzzier, the good news more ambiguous. A snapshot of poverty in the Cusco region offers a representative example of this complex and somewhat counterintuitive situation.

[13](#). (C) According to recent statistics from Peru's National Statistics and Information Institute (INEI), poverty in Cusco region has increased in recent years -- from 53.1% in 2004 to 57.4% in 2007 -- at the same time as national poverty levels fell from 48.6% to 39.3%. This growth in poverty is notable given the region's rapidly expanding wealth in mineral resources and natural gas reserves and its status as the heart of Peru's tourism industry. Between 2004 - 2007, Cusco's natural gas canon increased from about \$24 million to about \$200 million while its mining canon increased from zero in 2004 to nearly \$100,000,000 in 2007. (Note: "Canon" refers to natural resource royalties appropriated to regional governments, municipalities, and universities for use in development and infrastructure projects. End Note.) From 2004 and 2007, the number of tourists visiting Machu Picchu

rose from about 450,000 to about 800,000.

14. (C) Cusco region's challenge mirrors the broader challenge faced by Peru as a whole: how to distribute resources from a relatively prosperous urban core into impoverished rural areas. Cusco city, the capital of Cusco region, is predominantly middle-class with ample employment -- urban employment in Cusco grew more than 7% in the first half of 2008, according to the Ministry of Labor -- and upward pressure on wages for skilled workers, local observers told poloff during a recent visit. One NGO representative told us the demand for skilled construction workers was so high that it was difficult to find anyone to help with building renovations. By contrast, the scene changes dramatically an hour outside the city. Emboffs recently visited several agricultural villages near the tourist route to Machu Picchu and observed impoverished communities rivaling Peru's poorest regions. The NGO representative commented that, judging by the telling metric of childrens' shoes, much of rural Cusco -- where children often have no shoes at all -- is even worse off than the struggling Puno region on the Bolivian border.

Failed Local Government

15. (C) Cusquenos blame the increase in poverty primarily on the mismanagement and corruption of regional and local governments. Our local contacts say that Regional President Hugo Gonzalez -- who won election in 2006 with about 29% support -- rapidly lost credibility after appointing family members to key policy positions. XXXXXXXXXXXX told poloff that Gonzalez uses political criteria to designate resources for public work project said that Gonzalez's daughter often chooses people for government jobs. In January 2008 Gonzalez sought to repair his image by appointing an apolitical technocratic manager to oversee development, but the manager resigned in frustration after six months of internal infighting. Cusco's Mayor Marina Sequeiros in June 2008 was voted out of office by the city council on charges of corruption, including using municipal funds to pay her personal maid.

16. (C) Our Cusco contacts also argue that local governments have abdicated their responsibility to provide basic public services. XXXXXXXXXXXX told poloff that the teacher evaluation and training services provided by his NGO and others in rural Cusco by law should be provided by the regional government. The medley of NGOs doing this work do not follow uniform standards or practices, and do not have the authority to implement their recommendations. The regional government allows NGOs to handle the job and has not dedicated staff to assuming the services. XXXXXXXXXXXX added that after months working with one dedicated employee in the regional government's education office, the employee was replaced. Cusco's Regional Director for the National Institute of Civil Defense -- Peru's FEMA equivalent -- told a similar story. Even though the central government in June had transferred new disaster planning responsibilities to regional governments, Cusco's government showed no inclination to assume these duties or even to discuss the matter with Civil Defense. The Director said that his office would be forced to continue carrying out the same responsibilities with fewer resources. Meanwhile, the Regional Government managed to spend only about half of its investment budget -- including canon resources -- in 2007.

Mining Canon Resources Inflexible

17. (C) National laws restricting the use of mining canon resources has also undermined Cusco's development potential, according to local observers. The laws governing mining canon allows governments to invest the canon only in new infrastructure and other development projects, not in maintaining former public works such as roads, or in recurring costs such as salaries. Cusco's Human Rights Ombudsman told poloff that these restrictions led to situations like the one in the town of Espinar, where the mining firm Xstrata had built and staffed an impressive hospital while the Regional Government was unable to take over management of the hospital because it could not use canon resources to pay for operational costs. Xstrata has continued paying doctors for now, but will eventually withdraw, leaving no sustainable impact. Lack of creative, sustainable ideas for using mining canon has led some municipal governments to build unnecessarily large sports stadiums or statues. (Note: Poloffs have observed this phenomenon in other Peruvian regions, including one lucrative mining area in Tacna where five of six small towns had oversized stadiums. End Note.) Another portion of canon resources goes unspent and is returned to the central government.

Intransigents and Radicals Undermine Development

18. (C) Individuals with a political or economic stake in Cusco's continued poverty have also sought to undermine development, according to local contacts. The regional human rights ombudsman told poloff about the case of a successful effort to reduce poverty in rural Cusco called "Sierra Productiva" (Productive Sierra). Initiated by poor farmers from the town of Canas, the program has sought to apply ancient, local agricultural technologies to improve productivity and income. Sierra Productiva has had so much success that it has attracted the attention of prominent economists in Lima, mining companies, and other firms that want to support and extend its reach. The program has also drawn attacks from local leaders who fear that the its success will lead to a reduction in other social assistance. According to our contacts and press reports, a former Canas mayor from the communist New Left Movement, regional directors of the social program Juntos, local radio stations, and leaders from the radical teachers union Sutep have all worked to undermine Sierra Productiva. They alleged that the program has created the false impression that Canas has eliminated poverty and no longer needs outside help. Sierra Productiva's supporters argue that these groups' real motive is to destroy a program that, if successful on a broad scale, would undermine support for leftist parties and unions.

19. (C) Leftist groups have also launched a series of strikes that has directly hit tourism revenues and undermined the region's image. A violent strike led by radical unions and parties in February halted commerce for two days and led the central government to cancel several days of APEC meetings (Ref B). Rural strikes in early July forced the cancellation of trains to Machu Picchu and led to a massive, military-escorted, midnight evacuation of 1,200 tourists from the area, according to Peru Rail's chief of security. XXXXXXXXXXXX said part of Cusco's problem is that the communist Patria Roja party dominates

organizations at local universities, which he said churn out lawyers and activists better suited to political agitation than to deal with the region's genuine development problems.

Comment: Southern Highlands Lagging Behind

10. (C) Cusco's stagnation in the midst of plenty is a worrying reminder of the long development road Peru has yet to travel. Some regions, particularly along the coast, have successfully managed their resources to reduce unemployment and rural poverty. Others, particularly in the southern highlands, continue to fall behind.
MCKINLEY

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